Bonanza Air Lines
Summary Analysis of Operating Expenses

(First Six Months of 1966 and 1967)

AIRCRAFT OPERATING EXPENSE

Maintenance costs of the F-27 aircraft increased from $68.13 per block hour operated in the first half of 1966 to $86.56 for the same period in 1967. The F-27 aircraft, as does any aircraft, requires more maintenance as time accumulates. With inauguration of the DC-9 the F-27 was reduced to shorter stage flights. In the 1966 period the F-27 averaged 1.53 takeoff and landings per hour flown while in the first half of 1967 this had increased to 1.67. Average daily utilization of the F-27 in the first half of 1966 was 6.6 hours as compared to 6.3 hours in the 1967 period. All of these factors combine to increase the maintenance cost of an aircraft.

PASSENGER SERVICE

The aggregate dollar increase in stewardess' pay and expense resulted from the requirement that two cabin attendants are necessary on the DC-9 for assistance to passengers.

AIRCRAFT SERVICING

The principal increase in dollars in this function resulted from additions to the staff of mechanics at Las Vegas and Los Angeles to service the increase in flight frequencies and the aircraft requiring daily checks while overnighting away from the Phoenix maintenance base.

TRAFFIC SERVICING

The addition of an average of 66 station employees in the first six months of 1967 over 1966 to handle the increased number of passengers departing on the DC-9 as compared to the F-27 was a significant factor in the cost increase in this category of expense.

PROMOTION AND ADVERTISING

Additional promotion and advertising costs were incurred in 1967 over 1966 first six months in an effort to enlarge the Company's participation in the Las Vegas-Los Angeles market and to overcome resistance to the fare increase made unilaterally by the Company in this market. Increased advertising for the 1967 Summer season also contributed to the higher cost than was incurred in 1966.

SALES AND RESERVATIONS

An average increase of 17 reservation agents to service the greater number of passengers carried in the first six months of 1967 over the same period of 1966 was one of the factors which increased costs in this function. The purchase of a greater percentage of tickets through travel agencies in 1967 than in 1966 materially increased the commission paid to such agencies.

GENERAL AND ADMINISTRATIVE

A 3% general wage increase to administrative employees in the latter part of 1966 together with the addition of personnel in the computer field were the main causes in the increase in wages and personnel expense. Payroll taxes resulting from higher rates and base increased expense, not only in this category but in all expense functions. Property taxes were increased in all states in which the Company operates due to the higher valuation of the DC-9 aircraft as compared to the F-27 aircraft. Space rental in 1967 contributed to the cost increase over 1966 in which period the Company was occupying its own building in Las Vegas.

DEPRECIATION AND AMORTIZATION

Depreciation of DC-9 aircraft increased with 3 aircraft in service for the entire first six months of 1967 as contrasted to 2 aircraft in service from March 1, 1966 forward to June 30, 1966. Increased amortization expense represents the write-off of DC-9 preoperating costs and the costs of moving the Company's headquarters and base to Phoenix.

SUMMARY ANALYSIS OF OPERATING EXPENSES
FIRST SIX MONTHS 1967 AND 1966

(Amounts in thousands of dollars)

	1967			1966		
	Amount	Unit	Per Unit	Amount	Unit	Per Unit
Aircraft Operating Expense						
DC-9 block hours operated		5,139			2,298	
DC-9 flying operations	$ 965		$187.78	$ 427		$185.81
DC-9 maintenance	382		74.33	263		114.45
Total DC-9	1,347		262.11	690		300.26
F-27 block hours operated		15,850			17,627	
F-27 flying operations	1,258		79.37	1,398		79.31
F-27 maintenance	1,372		86.56	1,201		68.13
Total F-27	2,630		165.93	2,599		147.44
Total aircraft operating expense	3,977			3,289		
Passenger Service						
Stewardess' hours flown		25,262			21,703	
Stewardess' pay and expenses	247		9.78	211		9.72
Passengers boarded		478,755			386,985	
Passenger expense and insurance	199		0.42	166		0.43
Total passenger service expense	446			377		
Aircraft Servicing						
Aircraft flight departures		27,704			25,802	
Supervision, control and servicing	706		25.48	632		24.49
Traffic Servicing						
Passengers boarded		478,755			386,985	
Station supervision and operating costs	1,195		2.50	961		2.48
Total aircraft and traffic servicing	1,901			1,593		
Promotion and Advertising						
Total commercial revenue (000)		$8,243			$6,683	
Promotion and advertising cost	434		0.05	327		0.05
Sales and Reservations						
Total commercial revenue (000)		$8,243			$6,683	
Sales and reservations	743		0.09	584		0.09
Total promotion and sales	1,177			911		
General and Administrative						
Wages and personnel expense	446			391		
Aircraft and other property taxes	110			64		
Services and facilities expenses	245			200		
Total general and administrative	801			655		
Depreciation and Amortization						
DC-9 aircraft, components and parts	389			129		
F-27 aircraft, components and parts	494			510		
Ground property and equipment	47			48		
Route, equipment and moving costs	104			49		
Total depreciation and amortization	1,034			736		
Ground Property Maintenance	67			46		
Total operating expense	$9,403			$7,607		

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